

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 GSA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FEAE-00 FPC-01 H-02

INR-07 INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04

USIA-06 SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00

ACDA-07 XMB-02 AF-08 /112 W
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R 011045Z SEP 76

FM AMEMBASSY BRUSSELS

TO SECSTATE WASHDC 7840

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E.O. 11652: N/A

TAGS: EIND, BE

SUBJECT: BELGIAN COBALT POWDER

REF: STATE 206393

1. SUMMARY. THE SOCIETE GENERAL DES MINERAIS (SGM) CONFIRMS THAT IT PROVIDES ABOUT NINETY PERCENT OF THE NON-COMMUNIST WORLD'S SUPPLY OF ULTRAFINE COBALT POWDER. ALMOST HALF OF THIS GOES TO U.S. BUYERS. THUS, A U.S. BUYING HALT WOULD SERIOUSLY AFFECT, ALTHOUGH PROBABLY NOT END ULTRAFINE PRODUCTION BY SGM'S AFFILIATE METALLURGIE HOBOKEN. EMPLOYMENT AND FINANCIAL EFFECTS ON HOBOKEN AND THE REST OF THE SOCIETE GENERALE DE BALGIQUE GROUP WOULD BE SUSTAINABLE IN VIEW OF GENERALE'S DIVERSIFIED HOLDINGS AND LARGE RESOURCES. SGM WANTS TO WORK CLOSELY WITH USG AGENCIES AND PRIVATE INTERESTS TO FIND A SOLUTION TO THIS PROBLEM THAT RECOGNIZES HOBOKEN'S KNOW-HOW AND EXPERIENCE, PERHAPS THROUGH A JOINT-VENTURE INVESTMENT IN THE U.S. THE BELGIAN GOVERNMENT WOULD LIKewise HOPE FOR A SOLUTION WHICH ACKNOWLEDGED HOBOKEN'S WORLD LEADERSHIP IN THIS PROCESS. IF THE

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USG DECIDES TO REDUCE OUR OUTSIDE DEPENDENCE, WE SHOULD THUS

APPROACH OUR OPTIONS CAREFUL
CLOSE COLLABORATION
WITH THE BELGIANS. THE EMBASSY RECOMMENDS THAT WE BE KEPT
INFORMED OF USG THINKING ON THIS ISSUE IN ORDER TO KEEP
SGM AND GOVERNMENT OFFICIALS HERE FULLY IN THE PICTURE.
END SUMMARY.

2. WE HAVE DISCUSSED REFTEL WITH ANDRE STRUMANS, DIRECTEUR
GENERAL-ADJOINT, SOCIETE GENERALE DES MINERAIS (SGM).
STRUMANS WAS VERY INTERESTED IN THE FEDERAL PREPAREDNESS
AGENCY (FPA) STUDY, OF WHICH HE SAID HE HAD ALREADY HAD
SOME INKLING FROM TALKS WITH THE BUREAU OF MINES AND
DEPARTMENT OF INTERIOR DURING A WASHINGTON VISIT SEVERAL
WEEKS AGO. STRUMANS REPEATEDLY STRESSED, HOWEVER, THAT HE
WAS SPEAKING INFORMALLY; I.E., HIS COMMENTS REFLECT THE
GENERAL VIEWS OF HIS COMPANY BUT SHOULD NOT AT THIS TIME
BE TAKEN AS ITS FINAL AND OFFICIAL ATTITUDE ON THIS ISSUE.

3. STRUMANS SAID THAT METALLURGIE HOBOKEN-OVERPELT (AN
AFFILIATE OF SGM, ITSELF A MARKETING AGENT, WITHIN THE
SOCIETE GENERALE DE BELGIQUE (SGB) HOLDING COMPANY)
PRODUCES NINETY PERCENT OF THE ULTRAFINE COBALT POWDER
USED IN THE NON-COMMUNIST WORLD. ITS CAPACITY IS
CURRENTLY ALMOST 20 TONS A MONTH. OVER THE PAST FIVE
YEARS, EXPORTS TO THE U.S. HAVE ACCOUNTED FOR BETWEEN
43 PCT AND 49 PCT OF TOTAL SALES ANNUALLY. THE U.S. MARKET
FOR THIS PRODUCT IS HIGHLY CONCENTRATED, HE SAID, WITH
TWELVE CUSTOMERS TAKING AROUND 80 PCPT OF THE MARKET, THE
TWO BIGGEST OF THESE TAKING OVER 50 PCT. CLOSING OF THE
U.S. MARKET WOULD THUS OF COURSE BE A SERIOUS BLOW TO
HOBOKEN'S COBALT-REFINING OPERATION. STRUMANS SEEMED
TO THINK THAT PRODUCTION ON A REDUCED SCALE WOULD STILL
BE ECONOMICALLY FEASIBLE, HOWEVER. THE REFINING PROCESS
IS HIGHLY CAPITAL-INTENSIVE, SO THERE WOULD NOT BE ANY
IMPORTANT EMPLOYMENT EFFECTS (WE IMAGINE THAT ANY WORKERS
TAKEN OFF THE COBALT LINE COULD BE INTEGRATED INTO
HOBOKEN'S MASSIVE COPPER, ZINC, AND OTHER METAL REFINING
OPERATIONS). STRUMANS ALSO INDICATED THAT LOSS OF THE
U.S. ULTRAFINE MARKET WOULD BE A SUSTAINABLE FINANCIAL
BLOW TO HOBOKEN AND THE VERY LARGE, DIVERSIFIED AND
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WELL-FINANCED SGB GROUP.

4. STRUMANS BELIEVES THAT THE EFFECT OF POSSIBLE STOCK-
PILE ORDERS ON THE INTERNATIONAL MARKET COULD BE SLIGHT
IF THE STOCKPILE IS BUILT UP SLOWLY OVER A PERIOD OF
SEVERAL YEARS. A FASTER BUILDUP WOULD BE DESTABILIZING,
SINCE THE STOCK CONTEMPLATED (PARA 3 REFTEL) IS
EQUIVALENT TO ABOUT 20 MONTHS OF HOBOKEN PRODUCTION

AT FULL CAPACITY. HE CAUTIONED THAT PACKAGING TO
PREVENT OXIDATION OF THE MATERIAL HAS NOT YET BEEN
PROVEN EFFECTIVE OVER TEN YEARS.

5. STRUMANS SAID THAT, IN COMMERCIAL TERMS, SGM BELIEVES
THAT IT HAS BEEN AND CAN CONTINUE TO BE A RELIABLE
SOURCE OF SUPPLY FOR THE U.S. IN THIS COMMODITY. HE
UNDERSTANDS THE NATIONAL SECURITY ASPECTS OF THE PROBLEM,
HOWEVER - AND, IN FACT, SAID THAT SGM HAS BEEN GENERALLY
AWARE OF U.S. CONCERNS ON THIS SCORE FOR SOME TIME AND
EVEN DID A STUDY LAST YEAR ON WAYS TO COPE WITH IT.
THEREFORE, THE COMPANY WOULD PROBABLY WISH TO APPROACH
THE PROBLEM ON A "POSITIVE" BASIS, AND IN CLOSE COORDI-
NATION WITH THE USG. STRUMANS POINTED TO SGM/HOBOKEN'S
TECHNICAL KNOW-HOW AND EXPERIENCE IN COBALT REFINING
WHICH COULD FORM PART OF THE BASIS FOR A JOINT VENTURE
TO ESTABLISH FACILITIES IN THE U.S. HE SPECULATED THAT
THERE MIGHT EVEN BE A POSSIBLE TIE-IN WITH THE EXISTING
U.S. STEEL - UNION MINIERE (ANOTHER MEMBER OF THE SGB
GROUP) ARRANGEMENT TO RECOVER COBALT AMONG OTHER
MINERALS FROM UNDERSEA NODULES (SEE BRUSSELS A-63).
THE FIRST STEP IN DOING THIS, OF COURSE, WOULD BE TO FIND
AN ACCEPTABLE PARTNER. STRUMANS SAID THAT SGM DOES NOT
RPT NOT REGARD HALL CHEMICAL AS A LIKELY CANDIDATE.

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CIEP-01 COME-00 DODE-00 FEAE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-06 SP-02 SS-15 STR-04 TRSE-00 ACDA-07

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TO SECSTATE WASHDC 7841

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6. WE HAVE ALSO DISCUSSED THE FPA STUDY WITH MR. ERNEST JACOBS IN THE METALLURGY DIVISION OF THE MINISTRY OF ECONOMIC AFFAIRS. MR. JACOBS SHOWED INTEREST BUT SAID ONLY THAT THE MINISTRY'S PRINCIPAL CONCERN WOULD BE THAT BELGIUM RETAIN ITS WORLD LEADERSHIP IN COBALT REFINING TECHNOLOGY. HE NOTED THAT THIS PRODUCTION IS AN EXAMPLE OF THE TYPE OF SOPHISTICATED INDUSTRIAL PROCESS WHICH BELGIUM MUST RETAIN AND SEEK MORE OF IF ITS ECONOMY IS TO REMAIN COMPETITIVE IN WORLD MARKETS. WE JUDGE FROM HIS COMMENTS THAT THERE COULD BE BELGIAN GOVERNMENT CONCERN WITH ANY U.S. MOVE BASED ON ITS ENORMOUS MARKET POWER WHICH MIGHT THREATEN THE OVERALL VIABILITY OF PRODUCTION OF SPECIALIZED COBALT PRODUCTS HERE.

7. WE CONCLUDE THAT, WHILE THERE DOES APPEAR TO BE ROOM FOR MANEUVER IF THE USG DECIDES TO REDUCE OUTSIDE DEPENDENCE FOR THIS COMMODITY, WE SHOULD APPROACH OUR OPTIONS CAREFULLY AND IN CLOSE COLLABORATION WITH THE BELGIANS. A JOINT VENTURE WHICH ACKNOWLEDGED CONTINUED BELGIAN LEADERSHIP IN THIS FIELD INTERNATIONALLY MIGHT PROVE TO BE THE MOST MUTUALLY ACCEPTABLE SOLUTION. IN ANY EVENT, AS NOTED, STRUMANS HAS STRESSED SGM'S LIKELY INTEREST IN TALKING

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DIRECTLY ABOUT THE FPA STUDY, BOTH WITH USG AGENCIES AND WITH ASSOCIATED PRIVATE INTERESTS. HE SAID THAT HE AND/OR HIS COLLEAGUES WOULD BE PREPARED TO TRAVEL TO THE U.S. TO DO SO. WE LEAVE IT TO THE FPA AND OTHER AGENCIES TO DETERMINE WHEN THIS MIGHT BE USEFUL.

8. IN THE MEANWHILE, HOWEVER, THE EMBASSY WOULD LIKE TO BE KEPT INFORMED ON A CONTINUING BASIS OF FPA THINKING AND PROGRESS, SO THAT WE CAN BE AS FORTHCOMING AS POSSIBLE WITH SGM. THE COMPANY HAS BEEN VERY HELPFUL TO THE USG ON VARIOUS OCCASIONS--THE MOST RECENT BEING ITS WILLINGNESS TO PROVIDE INTERNAL FINANCIAL AND MARKETING INFORMATION TO ASSIST EXIM IN SETTING UP AN INGA-SHABA (ZAIRE) TRUST ACCOUNT. WE HOPE THAT IN A MATTER DIRECTLY AFFECTING ITS OPERATIONS AND PROFITABILITY, WE WILL BE ABLE TO KEEP ITS OFFICIALS (AS WELL AS BELGIAN GOVERNMENT CONTACTS) FULLY IN THE PICTURE.

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